

Title: Demonstration Project to Evaluate Integrated Care Around a Hospitalization

Section: 2704

State Option

Overview: Section 2704 of the Patient Protection and Affordable Care Act (ACA) establishes Medicaid demonstration projects designed to support states' efforts to shift from the current fee-for-service payment system to an integrated payment system that would provide a bundled payment for an episode of care. Up to eight states may receive funding through this demonstration project, with states selected based on the potential to lower Medicaid costs while improving the quality of care.

Episode-based bundled payment systems provide a single payment for a hospitalization and all services (e.g., hospitals, physicians, prescription drugs, laboratory and radiology, post-operative care, rehabilitation, etc.) related to a specific condition or diagnosis (e.g., coronary artery bypass graft surgery, knee replacement, hip replacement). Episode-based bundled payments can be considered an alternative to the traditional fee-for service payment system and a member-based capitation payment system. In contrast to capitation, whereby an entity receives a lump sum to provide all of the needed care for an individual for a specific period of time, an episode-based bundled payment system provides a single payment for all of the services related to a specific condition or diagnosis.

Rand Corporation researchers estimate that "under optimistic scenarios and with broad use of bundled payments for six chronic conditions and four acute conditions or procedures requiring hospitalizations," national health care spending could be reduced by 5.4%.¹

Targeted Populations: Hospitals, physicians and other providers that treat patients with conditions or diagnoses included in an episode-based bundled payment system.

Fiscal Impact: The ACA authorizes this program but does not appropriate any funding. As of October 1, 2010, CMS had not issued any guidance or provided additional information regarding this demonstration project. Until the specifics of this demonstration project are announced by CMS, and until Congress appropriates funding, the amount of federal funding is unknown, as are any state funding requirements.

¹ "Controlling U.S. Health Care Spending – Separating Promising from Unpromising Approaches," Hussey, et al, New England Journal of Medicine, November 11, 2009.

In the DHCFP budget submission for fiscal years 2011- 2012, this project is included in A02, Items for Special Consideration in Budget Account 3158 – DHCFP Administration. The Decision Unit would provide \$30,000 in funding (\$15,000 in state funds and \$15,000 in federal funds) for a consultant to prepare a grant application.

Applicability to Nevada: Given the lack of funding for this demonstration program, the applicability to Nevada is unknown at this time. The State could take preliminary steps to determine whether an episode-based bundle payment system might be effectively implemented in Nevada. This initial assessment might include an evaluation of different types of episode-based bundled payment systems; working with physicians and hospitals to gauge their interest in pursuing an episode-based bundled payment system; and identifying conditions or diagnoses in which there is a high variability of cost, the greatest potential for savings and the possibility of improved quality of care.

Until additional information regarding this demonstration project is released, not enough is known about this project for the Division of Health Care Financing and Policy (DHCFP) to determine whether it would be beneficial for Nevada to participate.